

Consumer Alert



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Calculating Credit: How changes in the FICO formula will affect your score

The formula used to determine a consumer's credit score will be tweaked in 2009. The change offers a few new advantages to consumers, but also some serious new risks.



do a better job of predicting defaults than the classic FICO, which is used in more than 75% of mortgage lending decisions and by 90% of the largest U.S. credit users.

Created by Fair Isaac, the FICO scoring model is the most popular credit scoring formula in use. The changes in the model – commonly referred to as FICO 08 – are supposed to give a more accurate representation of a person's ability to wisely use credit.

Fair Isaac says the new score will

Good news first

FICO 08 is an improvement over the old formula in several key ways for consumers.

Collections: FICO 08 ignores small collection accounts in which the original debt was less than \$100. This eliminates the penalty of small,

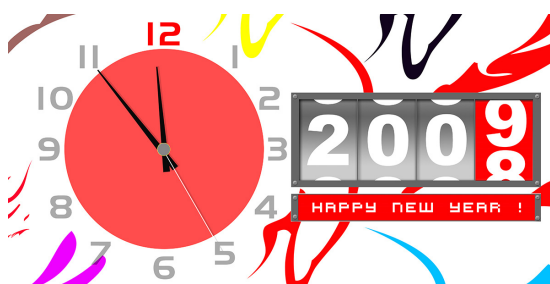
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Consumer resolutions for a healthy, wealthy, fiscally wise 2009

When most New Year's resolutions are already falling by the wayside, the South Carolina Department of Consumer Affairs would like to see consumers adopt some good consumer practices for 2009. By keeping these tips in mind, South Carolinians should have fewer hassles and reduce chances of falling for a scam.

In 2009 consumers should resolve to...

Always use caution when considering a payday or title loan,



and tax refund anticipation loans. Payday and title loans often put you deeper in debt! Interest rates are high and consumers sometimes take out multiple loans. Worse still, a Refund Anticipation Loan (RAL) on your tax refund can be dangerous. If

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- How to choose the best gym
- Explaining the digital switch for TVs
- Changes in credit scoring formula

Tip the scales in your favor: Don't sign a fat physical fitness contract

While many New Year's resolutions may be difficult to keep, one resolution may be practically impossible to abandon.

Your resolution to drop the extra pounds may prompt you to join the gym, but it could also require you to sign a contract that's more restrictive than you intended and nearly impossible to break.



Trouble canceling physical fitness memberships is one of the top complaints logged with consumer protection agencies and state attorneys general.

Before you sign on the dotted line, the South Carolina Department of Consumer Affairs wants you to understand your agreement. Doing so may prevent you from losing money faster than you lose the pounds.

Fine Print: Read it. Every word. Some facilities will allow you to take the contract home overnight, if you ask.

Some fine print includes clauses that require you to attend the fitness facility a designated number of times in the first month.

Failure to do so may result in a multi-year contract.

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Don't break the bank, breaking a sweat

How to choose the best gym for you

Choosing a gym is lot like buying a new car.

You want to avoid getting involved with a lemon. You don't want to over pay. You want amenities you will actually use.

And you know if you change your mind, you're going to have a hard time getting your money back.

That's why it's important to choose a gym that's right for you.

The main things to consider when choosing a gym are these: cost, location, accessibility, equipment and classes, staff, and atmosphere.

Cost

Membership to a gym can be very expensive, so before going any further, ask yourself if you have room in your budget for an extra expense.

Fees may vary widely with some gyms asking for an initial sign up fee followed by monthly fees ranging from \$20 to \$100 dollars. Comparison shop to find the best deal and don't be afraid to negotiate



the terms.

Before signing anything read the fine print. Are amenities, such as showers, access to a swimming pool, or specialized classes included in the monthly cost or is it extra? Does your membership limit you to certain hours or days? Are guests allowed?

Physical fitness contracts are notoriously difficult to break and can leave you out of hundreds of dollars. Before agreeing to a long term deal, try the gym for a shorter period. A month-to-month membership may cost more in the short term, but could equal huge savings if you find out later that you don't use your membership as often as you thought.

Location

If your gym is more than a 10-minute walk or drive from your home or office, studies show, you probably won't go - no matter how nice or expensive it is. Location needs to be one of your primary considerations when joining a gym.

Accessibility

Obviously it's important for the gym to be open when you're most likely to work out, but it's equally important that it's not too crowded during those times. If you tend to work out at peak hours, for example after work or early in the morning, it's important to stop by during those times to see gauge whether or not it's too busy for you.

Equipment and classes

Depending on your desires, a gym doesn't necessarily have to be decked out in the latest, greatest fitness equipment.

Will you use it?

50% of all new gym members quit within the first six months of signing up.

20% of gym members use their club at least twice per week.

In 2001 gym members reported an average of 93 days at their gym, which is less than twice a week.

However, it should include basic cardio and resistance training machines and equipment that you are familiar with using.

Be sure to check that the equipment is in good condition and well maintained. Don't be afraid to ask how often they replace the equipment. If you see a number of out of order signs, it's a red flag.

Make sure the equipment is appropriate for your size and skill level. If you've found, as many women have, that most weight machines are too big for you, ask if the equipment features smaller weight increments and adjusts to fit smaller people.

Also, if you're interested in aerobics or high-intensity workouts, a wooden or suspended floor that gives will be a lot easier on your bones and joints.

Make sure, too, that the gym has the classes you want, whether kickboxing, aerobics, or power yoga. Class times and skill levels are also important. If you have the option, sit in on a class before you join.

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Finally make sure it's clean. Equipment should be regularly wiped off and bathroom and locker room areas neat and tidy. Gyms are notorious transmitters of staph infection.

Staff

If you're new to the gym scene, you'll want a good relationship with the gym staff. They are there to help you and should be knowledgeable and well trained.

When you are visiting, pay attention to what they are doing. Are they actively helping members? Do they seem friendly and helpful?

Besides having a good attitude, the staff at a gym should be trained in both first aid and CPR.

They should also be certified by an organization such as the American Council on Exercise, the American College of Sports Medicine, or the YMCA/YWCA.

Atmosphere

You should feel comfortable with the people, place, and atmosphere of your gym. If you don't, you won't go.

Before purchasing a membership, take a tour

Running



during the time you think you'll be working out. That will allow you to see how crowded the gym will be when you're there. If the idea of working out among hardcore gym enthusiasts makes you feel shy, you might try your local YMCA, community center, or college athletic center instead. For women who are uncomfortable working out around men, choose a gym that allows only women or one that has designated women-only areas.

CONTINUED: Tip the scales...

Other fine print items may contain details about required equipment maintenance and licensing information. Ask for a rate sheet and compare the prices of different programs before you join.

Terms of

termination: It may be hard to get on the treadmill, but it's even harder to cancel your

contract. The SC Physical Fitness Services Act does provide consumers a three-day window to cancel their contract.

Cancellations after this time period are only required in one of

the following situations: death, permanent disability, moving 50 miles or more from the facility, or

specific terms in the written contract. Facilities are required to state these provisions in your contract.

Know what kind of documentation your contract requires before trying to cancel your payments.

Some contracts may require you

to send cancellation requests by certified letter, provide proof of a new mailing address, or a doctor's note before they cancel your bill.

Not following the proper protocol

may cause damage to your credit score over time.

Automatic Renewal: Under the Physical Fitness Act, an automatic renewal clause may be included in the contract.

The automatic renewal clause must be signed or initialed by the member when finalizing the contract.

The member must be sent notice of the automatic renewal 30 days before the end of the original contract.

Contract Negotiation: Many fitness facilities will honor low rates and payment plans long after the initial offer.

Make a note of promotions as they occur and ask for them when you renew your contract.



It can be a real fight to get out of a physical fitness contract.

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negligent debts that are often petty and overlooked by the consumer. Examples of these types of debt, include overdue library books, traffic tickets, and even small medical bills. Previously these small debts did serious damage to credit scores.

Credit missteps. FICO 08 is more lenient of serious, one-time, credit mistakes, such as a charge-off or repossession, as long as other credit accounts remain in good standing. The key, however, is that all of the other credit accounts must be in good standing and that's a rare occurrence.

Authorized users. Authorized user accounts are still factored into a borrower's credit report. Originally Fair Isaac said the new score would ignore this information, due to "authorized user" scams, but backed off and allowed the information.

Adding a spouse or child to your credit card as an authorized user has long been a good way to improve that person's credit score, because your good history with the account typically could be imported to the relative's credit file. But in 2007, credit repair companies began abusing this feature by "renting" authorized-user slots from good credit risks and selling them to strangers who wanted to boost their scores. Some of these strangers bought slots on dozens of different people's cards, boosting their scores by tens or even hundreds of points.

Not allowing authorized user information, however, would

punish millions of innocent parties, including spouses and young borrowers who depend on authorized-user information.

Bad news

FICO 08 is more punitive when accessing how much of your available credit you're using. If your

credit card issuer reduces your credit limit, you will see an impact in your score, regardless of

whether you carry a balance or what prompted the reduction in credit. This is one of the biggest hazards for consumers, as issuers continue to slash credit limits. Lower limits narrow the gap between a consumer's balance and their limit, which is generally bad for their credit score.

The new scoring formula also more negatively impacts consumers that have few open, active accounts.

What you can do to protect your score

Watch those balances. The less of your credit lines that you use, the better, even if you pay your balances every month.

The credit bureaus and your credit scores don't distinguish between balances you pay off and those you carry month to month; the balance that's reported to the bureaus is typically the one that shows on your most recent monthly statement.

If you're in the habit of using a big portion of your credit limit — because you travel on business or are chasing credit card rewards — consider asking for a higher limit or using more than one card. Ideally, use no more than 30% of your available limit at any time during the month.

Don't close accounts. Fair Isaac has made it clear that closing accounts can never help a classic FICO score and may hurt it. FICO 08 awards more points for having open accounts in good standing, while having a higher proportion of closed accounts can hurt you more.

Keep your accounts active. Issuers increasingly are shutting down unused accounts, which reduces your available credit and can hurt your scores. Even if your account isn't closed, though, FICO 08 doesn't like to see a bunch of unused cards. It wants to see you actively and responsibly using a variety of credit accounts.

Consider an installment loan. There are two main types of credit: revolving accounts that allow you to build up and pay down balances, and installment loans that typically have fixed payments that require you to pay down your balance over time. Credit cards and lines of credit are examples of revolving accounts, while auto loans and mortgages are considered installment loans.

The FICO formula has always rewarded those who successfully managed both types, which is why getting an installment loan was often recommended as a way for people with troubled credit to rehabilitate their scores. The new scoring formula is even more sensitive to the mix of credit types people have and use. In the past, people were able to get and keep very high scores using only credit cards. It's not clear if that will still be true under FICO 08.



CONTINUED: **Consumer resolutions for a healthy, wealthy, fiscally wise 2009**

your refund is garnished for an unpaid debt such as medical bills and you've already borrowed against the anticipated refund, you're in double trouble. If you're short of cash, avoid all these loans by asking for more time to pay a bill or seeking a traditional loan. Even a cash advance on your credit card may cost less in the long run.

Never do business from a telephone poll.

Look the other way when you see a sign with a toll free number promising credit help, foreclosure abatement, work at home schemes, weight loss, talent searches, etc.

Think twice before giving out personal information.

Keep your private information private! Guard your Social Security, bank accounts, and credit card numbers with your life. Never give out passwords, pin codes or other sensitive information to an unknown caller or email – no matter who they claim to be. Any company or government entity with whom

you do business already has your information. Learn how to protect yourself from identity theft and make a practice of safely shredding all documents containing personal information.

Do homework before making a major purchase.

Don't rush the purchase and don't buy under stress. Senior citizens, people in crisis, college students, small business owners, minorities, and immigrants are especially at risk of being victimized. Take the time to do your research. Talk to friends, neighbors, and coworkers you trust. The more you know before you head to the store (car dealership, mortgage broker, etc.), the more likely you are to get a good deal.

Not to hire a contractor who just shows up at the door.

They'll offer you a great deal because they're "in the neighborhood" and have materials left over from a previous job. Reputable contractors just don't

work that way. Also, get all promises in writing. If it isn't written down, it doesn't count. Verbal promises are worthless because if there's a dispute, you have nothing to back up your claim.

Not to be pressured into buying.

Good businesses don't need to rush you into a decision. The high-pressure buy now approach is designed to keep you from comparison shopping. Don't fall for it. If the sales person tells you the price won't be good if you walk out the door, turn around and leave!

Not to assume a transaction can be undone.

Despite popular opinion, everything is NOT covered by a three-day cooling-off rule. This only applies to sales of \$25 or more that take place at your home or away from the company's normal place of business.

Not to buy a used car without an inspection.

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It's time to flip the switch! What you need to know about the switch from analog to digital TV

At midnight on February 17, 2009, analog television sets will fade to static as all TV signals will become digital.

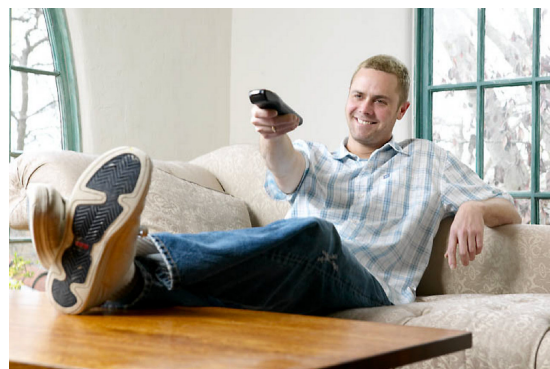
While this may sound apocalyptic, the majority of Americans will barely notice. It is estimated that just 10 percent of television owners will need to make adjustments to continue using their existing set.

The first thing you should know is that you do not need a new television set. Now if you would like to upgrade your television, by all means go ahead, but you do not have to buy a new set to receive the

digital signal.

A converter box (called an ATSC tuner or ATSC receiver or HDTV tuner) is available to convert analog signals to digital. Consumers can expect a converter to cost between \$50 and \$75. They are available at most major retailers. To help ease the cost for consumers the government is providing a \$40 coupon for the converter, though money for the program is running out.

The following should clear up any confusion about the switch from analog to digital.



Got cable or satellite? Sit back and relax.

If you own an analog television and receive a television signal through an antenna, you will need to purchase a converter box. In

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CONTINUED: It's time to flip the switch!

simplest terms, if you enjoy free television and purchased your TV before 1998, you will need a converter box to continue watching.

Who has nothing to worry about?

If you receive cable (digital or regular) or satellite service and plan to continue to do so, you have nothing to worry about, even if your television is analog, because the signal is converted for you by your service provider. If you own a digital television – nearly all TV sets produced since 2004 have a digital receiver – you have nothing to worry about. However, very few TV sets built before 1998 have a digital receiver.

Do I need an HD TV?

No, no, no. High definition requires a digital receiver or converter box, but you can get a digital signal without an HD TV.

What do I need to know about the coupon?

- ☛ To receive a coupon call 1-888-388-2009 or order online at www.dtv2009.gov.
- ☛ Each household is eligible for two \$40 coupons.
- ☛ Only one coupon can be used per converter box.
- ☛ Coupons expire 90 days after they're mailed.

More questions? Complaints?

Call (888) 388-2009 or go to www.dtv2009.gov.

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Consumer resolutions...

A mechanic can spot structural problems, odometer fraud and flood damage; things that won't necessarily show up on a Car Fax report. Yes, you'll pay \$100 or so to have this done, but it's worth the money.

Think twice before purchasing Extended Warranties and Service Contracts.

They are almost never worth what you pay for them. Often, they don't cover the parts that are subject to frequent repairs, or the circumstances covered by the warranty are very limited.

Remember that "if it sounds too good to be true – it usually is!"

The expression has become cliché, but the advice is rock solid. With most scams the warning signs are there, we just tend to ignore them. We let greed and gullibility replace common sense. Don't give your hard-earned money to a con artist.

About the South Carolina Department of Consumer Affairs

Established by the Consumer Protection Code in 1974, the South Carolina Department of Consumer Affairs represents the interest of South Carolina consumers. Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement, and education. For more information on the SCDCA, visit www.sconsumer.gov.

Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement and education. The Department strives to be a **CREDIT** to our State by holding the following values as essential in our relationships and decision-making:

Competence **R**espect **E** quality **D**edication **I**ntegrity **T**imeliness

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Tip the scales...

Legal Limits: Despite the apparent danger of signing a restrictive contract, the Act does provide consumers certain rights and safeguards.

The Act requires fitness facilities to have a surety bond or letter of credit to cover service contracts exceeding \$200 or three months and requires them to refund the remainder of a consumer's contract, if the business closes.

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